



May 10, 2006

CHAIR  
**ROBERT BOUER**  
Councilmember  
City of Laguna Woods

VICE CHAIR  
**BILL CAMPBELL**  
Supervisor  
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Councilmember  
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Sanitary District

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Representative of  
General Public

**TOM WILSON**  
Supervisor  
Fifth District

**JOHN WITHERS**  
Director  
Irvine Ranch Water District

ALTERNATE  
**PATSY MARSHALL**  
Councilmember  
City of Buena Park

ALTERNATE  
**RHONDA MCCUNE**  
Representative of  
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ALTERNATE  
**JAMES W. SILVA**  
Supervisor  
Second District

ALTERNATE  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

**TO:** Local Agency Formation Commission

**FROM:** Executive Officer  
Assistant Executive Officer  
Project Manager

**SUBJECT:** LAFCO Final Budget for FY 2006-2007

### **Background**

On April 12, 2006, your Commission adopted a proposed budget for FY 2006-2007 for all LAFCO operations. A copy of the staff report is attached for your review (see Attachment 3). The proposed budget incorporates a six percent (6%) increase to our funding agencies (the County, cities and special districts) and is consistent with the three-year budget adopted by the Commission in April 2005. The FY 2006-2007 budget identifies contributions from our funding agencies totaling \$1,045,982. The County, cities and special districts will equally divide this cost, each paying \$348,661.

### **Special District and City Cost Allocations**

At the direction of the Commission, LAFCO met with the Independent Special Districts of Orange County (ISDOC) Executive Committee on April 18, 2006. The Executive Committee approved an adjustment to the special district allocations for FY 2006-2007 which more equitably distributes costs among all enterprise and non-enterprise special districts. For your review, Attachment 1 includes a comparison of special district contributions to LAFCO in both FY 2005-2006 and FY 2006-2007. Attachment 2 provides the Commission with a similar comparison of city cost allocations for FYs 2005-2006 and 2006-2007.

### **Request for Comments**

On April 14, 2006, the proposed LAFCO budget was distributed to the Board of Supervisors, each city and each independent special district for review and comment. No significant comments regarding the proposed budget were received by staff.

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Re: Proposed LAFCO Budget  
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**Recommendations**

Staff recommends that the Commission:

1. Adopt the Final LAFCO operating budget for Fiscal Year 2006-2007.
2. Direct staff to distribute the LAFCO Final Budget to the Board of Supervisors, each city, each independent district and the County Auditor.

Respectfully submitted,

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JOYCE CROSTHWAITE

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CAROLYN EMERY

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BOB ALDRICH

*Attachments:*

1. *Special District Allocations*
2. *City Allocations*
3. *April 12, 2006 Staff Report*

# ATTACHMENT 1

## Special District Allocations – FY 2006-2007

<b>DISTRICT</b>	<b>FY 2005-2006 LAFCO COSTS</b>	<b>FY 2006-2007 LAFCO COSTS</b>
Surfside Colony Storm water	\$250	<b>\$250</b>
Surfside Colony CSD	\$250	<b>\$250</b>
Capistrano Bay CSD	\$500	<b>\$500</b>
Rossmoor CSD	\$500	<b>\$500</b>
Silverado-Modjeska Rec & Park District	\$500	<b>\$500</b>
Rossmoor/Los Alamitos Sewer	\$500	<b>\$500</b>
Three Arch Bay CSD	\$1,000	<b>\$1,000</b>
Placentia Library	\$1,000	<b>\$1,000</b>
Buena Park Library	\$2,000	<b>\$2,000</b>
Orange County Vector Control	\$2,000	<b>\$2,000</b>
Orange County Cemetery	\$2,000	<b>\$2,000</b>
Emerald Bay CSD	\$5,022	<b>\$5,346</b>
Santiago Canyon Water	\$5,022	<b>N/A</b>
Sunset Beach Sanitary	\$5,022	<b>\$5,346</b>
Midway City Sanitary	\$10,929	<b>\$11,748</b>
Serrano Water	\$10,929	<b>\$11,748</b>
East Orange County Water District	\$10,929	<b>\$11,748</b>
Costa Mesa Sanitary	\$16,542	<b>\$17,831</b>
Trabuco Canyon Water & Sewer	\$16,542	<b>\$17,831</b>
Yorba Linda Water & Sewer	\$22,450	<b>\$24,243</b>
South Coast Water & Sewer	\$22,450	<b>\$24,243</b>
El Toro Water & Sewer	\$22,449.27	<b>\$24,243</b>
Mesa Consolidated Water	\$22,449.27	<b>\$24,243</b>
Irvine Ranch Water & Sewer	\$29,538.51	<b>\$31,918</b>
Moulton Niguel Water & Sewer	\$29,538.51	<b>\$31,918</b>
MWDOC Water	\$29,538.51	<b>\$31,918</b>
OCWD Water	\$29,538.51	<b>\$31,918</b>
Santa Margarita Water & Sewer	\$29,538.51	<b>\$31,918</b>
<b>TOTAL</b>	<b>\$328,925</b>	<b>\$348,660</b>

## ATTACHMENT 2

### City Allocations – FY 2006-2007

<b>CITY</b>	<b>FY 2005-2006 LAFCO COSTS</b>	<b>FY 2006-2007 LAFCO COSTS</b>
Aliso Viejo	\$4,880.72	\$5,145.62
Anaheim	\$36,724.65	\$38,874.34
Brea	\$5,335.38	\$5,667.21
Buena Park	\$8,283.03	\$8,738.22
Costa Mesa	\$11,897.12	\$12,538.11
Cypress	\$5,155.15	\$5,451.40
Dana Point	\$4,229.44	\$4,466.84
Fountain Valley	\$6,346.29	\$6,739.39
Fullerton	\$15,025.74	\$15,917.61
Garden Grove	\$16,814.65	\$17,742.16
Huntington Beach	\$20,938.34	\$22,259.75
Irvine	\$24,933.89	\$26,975.16
Laguna Beach	\$3,551.66	\$3,756.03
Laguna Hills	\$3,919.34	\$4,142.21
Laguna Niguel	\$8,133.58	\$8,594.76
Laguna Woods	\$2,030.57	\$2,141.69
La Habra	\$6,227.57	\$6,568.47
Lake Forest	\$9,493.99	\$10,017.17
La Palma	\$1,645.73	\$1,735.06
Los Alamitos	\$1,827.12	\$1,930.55
Mission Viejo	\$11,146.62	\$11,757.57
Newport Beach	\$11,532.54	\$12,327.45
Orange	\$15,430.84	\$16,309.93
Placentia	\$5,200.18	\$5,499.37
Rancho Santa Margarita	\$6,527.61	\$6,889.70
San Clemente	\$8,644.42	\$9,281.32
San Juan Capistrano	\$5,741.25	\$6,069.56
Santa Ana	\$32,341.41	\$34,159.82
Seal Beach	\$4,509.22	\$4,783.99
Stanton	\$3,594.32	\$3,789.57
Tustin	\$7,694.82	\$8,131.99
Villa Park	\$920.71	\$972.09
Westminster	\$9,126.19	\$9,651.70
Yorba Linda	\$9,120.89	\$9,735.18
<b>TOTALS</b>	<b>\$328,925.00</b>	<b>\$348,661.00</b>



April 12, 2006

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Representative of  
General Public

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**JOYCE CROSTHWAITE**  
Executive Officer

**TO:** Local Agency Formation Commission

**FROM:** Executive Officer  
Assistant Executive Officer

**SUBJECT:** Proposed LAFCO Budget for Fiscal Year 2006-2007

## BACKGROUND

Government Code Section 56381(a) requires the Commission to adopt a proposed budget for all LAFCO operations by May 1<sup>st</sup> of each year. Following adoption, the proposed budget is distributed for review and comment to the Board of Supervisors, each city, the City Selection Committee, each independent special district, and the Independent Special Districts of Orange County (ISDOC) Selection Committee. The final LAFCO budget is required to be adopted by the Commission no later than June 15, 2006.

During last year's budget cycle, the Commission adopted a three-year budget which covers (FY) 2005-2006, 2006-2007 and 2007-2008. The three-year budget incorporates a six percent (6%) increase to our funding agencies (the County, cities and special districts) for each of the three fiscal years (see Table 1 below). The proposed FY 2006-2007 LAFCO budget is consistent with the three-year budget adopted by the Commission in April 2005.

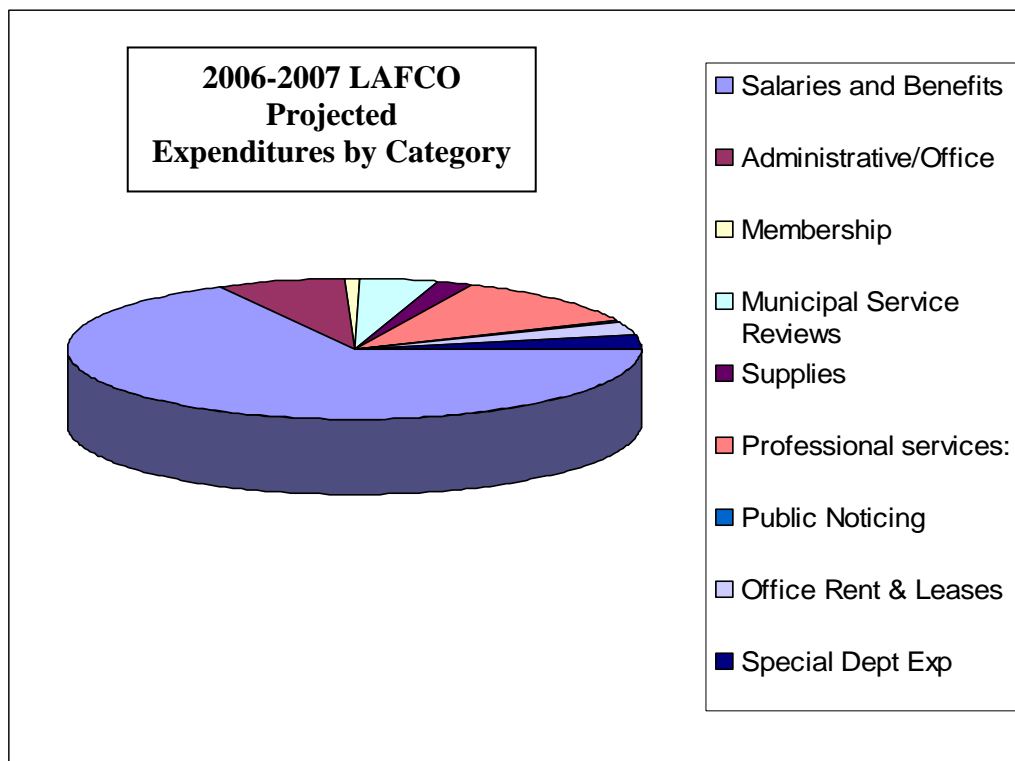
**Table 1: Approved Increases to Funding Agency Contributions**

Fiscal Year	2005/2006	2006/2007	2007/2008
Total Funding Contribution	\$986,775	\$1,045,982	\$1,108,741
County, City, Special District Share	\$328,925	\$348,661	\$369,580
Percent Increase	-	6%	6%

For your Commission's consideration, the proposed FY 2006-2007 LAFCO budget is presented as *Attachment 1* of this staff report. LAFCO's Executive Committee, consisting of Commissioners Bob Bouer, Bill Campbell and Susan Wilson, met with LAFCO staff on April 6, 2006 to discuss and review the proposed budget.

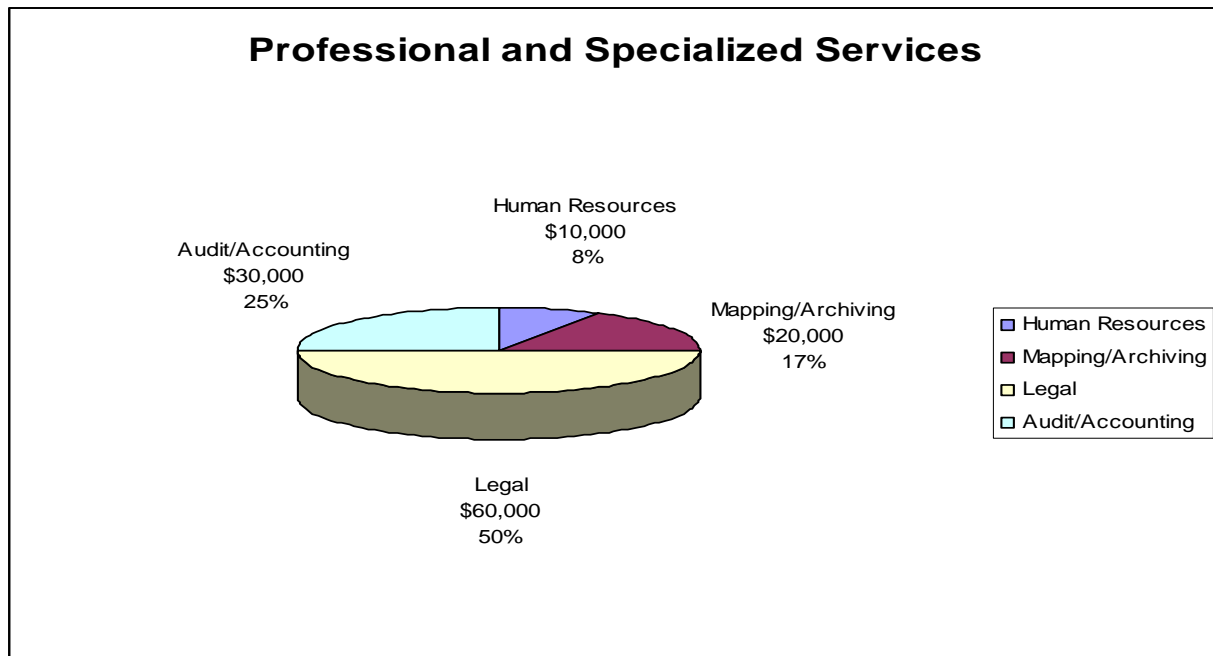
## 2006-2007 BUDGET OVERVIEW

Staff salaries and benefits represent the highest expenditure category within the proposed budget, representing approximately 69% of the projected FY 2006-07 expenditures. Staff was able to reduce agency retirement costs in FY 2006-07 by taking advantage of a "prepayment option" offered by the Orange County Retirement System (OCERS). By paying the agency's employer contribution for FY 2006-2007 in advance, LAFCO was eligible to receive a 7.5% discount in the total agency contributions amounting to approximately \$8,500 in annual savings.



The "Professional and Specialized Services" category represents the largest services and supply account, totaling \$120,000. It includes bookkeeping and accounting/auditing services and contracted services for legal counsel, human resources and

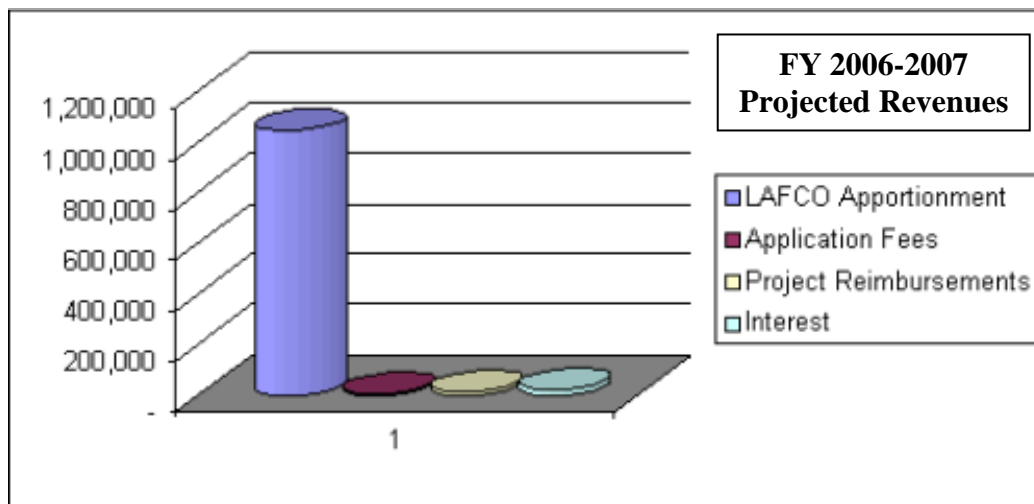
mapping/GIS/archiving services. This is a \$20,000 budget reduction over last year's professional services category because the majority of the archiving project costs were incurred during FY 2005-2006. The percentage and distribution of these costs are depicted below:



### **Revenues**

Projected FY 2006-2007 LAFCO revenues total \$1,083,982. Ninety-six percent (96%) of the agency's revenue come from contributions from our funding agencies, the County, cities and special districts. Approximately two percent (2%) of the revenue is generated through bank and investment interest. The remaining two percent (2%) is generated through application fees and project reimbursements from applicants.

Although LAFCO converted to a "time and materials" fee schedule in July 2005, very little agency revenue is generated from application fees. This trend is indicative of the changing nature and the type of applications being processed by Orange County LAFCO. The days of large annexations and incorporations within Orange County are, for the most part, behind us. The majority of the applications OCLAFCO processes today are related to Commission-initiated municipal service reviews and sphere of influence updates – projects for which staff time and materials are not reimbursable.



The proposed FY 2006-2007 LAFCO budget identifies expenditures totaling \$1,045,982. Of this amount, \$38,000 is paid through application fees, and interest earnings. The balance, \$1,045,982, is equally divided between the County, cities and special districts, each paying \$348,661. Staff, using the cost allocation formulas previously adopted by the Independent Special Districts of Orange County and the Orange County League of Cities, calculated individual city and special district contributions for the proposed FY 2006-2007 budget. City and special district contribution summaries are included in *Attachments 3 and 4*, respectively.

#### City Allocations

The cities' formula allocates individual city costs based on a formula using the size and population of a city. Large cities with significant populations, such as Anaheim, Irvine and Santa Ana, for example, pay a higher contribution than do smaller cities with less population. Cumulatively, the 34 cities will pay an increase of approximately \$20,000 over the FY 2005-2006 cities' contribution. This increase is spread out among the County's 34 cities. Individual city increases for FY 2006-2007 range from a \$52 increase for the City of Villa Park to approximately \$2,000 for the City of Irvine.

#### Special District Allocations

The special districts' allocation formula, originally adopted by the Independent Special Districts of Orange County (ISDOC) in 2001 and reaffirmed in August 2005, distinguishes between non-enterprise and enterprise special districts. Non-enterprise districts pay a fixed cost ranging from \$250 to \$2,000 annually. Allocations for non-enterprise districts are capped and do not increase.



The ISDOC formula for enterprise districts uses a tiered formula based on the districts' operating revenues as reported in the annual State Controller's Report. Districts are placed in one of five categories (A, B, C, D or E) based on the amount of their operating revenues. Each category pays a fixed percentage of the overall LAFCO special district allocation ranging from 1.7% for "A" districts to 10% for "E" districts (see *Table 2* below).

***Table 2: Enterprise Special District Allocation Categories\****

Category	Enterprise Special District Operating Revenues	% Contribution by Each District
A	Less than \$1 million	1.7
B	\$1million - \$5 million	3.7
C	\$5million - \$10 million	5.6
D	\$10 million - \$25 million	7.6
E	\$25 million +	10

*\*Per August 2005 ISDOC Allocation Formula*

Cumulatively, the 27 special districts will pay an increase of approximately \$20,000 over the FY 2005-2006 special districts' contributions. Individual special district allocations for FY 2006-2007 are listed on *Attachment 4*.

#### Trabuco Canyon and East Orange County Water Districts

Using the adopted ISDOC allocation formula, 2006-2007 increases in LAFCO contributions for enterprise special districts range from \$226 for "A" districts, \$411 for "B" districts, \$586 for "C" districts, \$771 for "C" districts and \$993 for "E" districts. Two districts, Trabuco Canyon Water District and East Orange Water District, however, will incur significant increases in LAFCO contributions for FY 2006-2007 over the prior fiscal year as indicated on *Table 3*, below.

***Table 3: Trabuco Canyon and EOWD Contributions***

DISTRICT	O5/06 LAFCO Contribution	06/07 LAFCO Contribution	06/07 Increase
Trabuco Canyon Water District	\$16,541	\$23,510	<b>\$6,969</b>
East Orange County Water District	\$10,929	\$16,957	<b>\$6,028</b>

Operating revenues for Trabuco Canyon Water District, as reported in the State Controller's Report, exceeded \$10 million which moves the district from a "C" to a "D" category. Similarly, operating revenues for the East Orange County Water District exceeded \$5 million, moving the district from a "B" to a "C" category. Of the enterprise special districts, Trabuco Canyon and East Orange County Water Districts are the only two districts to move to a higher category from FY 2005-2006 to FY 2006-2007. This has resulted in these two districts paying a disproportionate share (65%) of the overall LAFCO special district allocation increase for FY 2006-2007. Shifts in district categories were not anticipated when ISDOC adopted their original allocation formula.

In allocating costs among special districts, Government Code Section 56381(c) states that "... it is the intent of the Legislature that no single district or class or type of district shall bear a disproportionate amount of the district share of costs." LAFCO staff has contacted both districts to determine if there were errors in the revenue amounts as reported by the State Controller. If the revenue amounts are correct, LAFCO will work with ISDOC to more equitably spread the 2006-2007 LAFCO costs among all of the enterprise special districts. Alternatives to the current formula are available, including:

- Maintaining the existing categories used in FY 2005-2006 for the enterprise special districts. This option would change the existing ISDOC formula so that adjustments to district categories are no longer tied to changes in district operating revenues, but could be made subject to periodic ISDOC review.
- Spreading special district costs according to the relative populations served by each district with a pre-determined cap on larger districts (e.g., MWDOC and OCWD) so no single district would pay a disproportionately large share of the costs. Government Code Section 56381(B) allows the use of an alternative method to distribute special district costs if that formula is approved by a majority of the agencies representing a majority of their combined populations. ISDOC did re-approve the current formula in 2005.

## CONCLUSION

The proposed LAFCO budget for 2006-07 is consistent with the three-year budget adopted by the Commission in April 2005. It maintains existing staffing levels to carry out the Commission's work plan adopted in the January 2006 Strategic Plan and balances revenues and expenditures without relying on project reserves.

## RECOMMENDATIONS

Staff recommends that the Commission:

1. Adopt the Draft FY 2006-2007 Local Agency Formation Commission budget, and direct the Executive Officer to distribute the proposed budget for review and comment to the Board of Supervisors, each city, the City Selection Committee, each independent special district and the Independent Special Districts of Orange County (ISDOC) Selection Committee.
2. Direct staff to work with the Independent Special Districts of Orange County (ISDOC), the Trabuco Canyon Water District and the East Orange County Water District to determine if agreement can be reached to redistribute LAFCO costs among the enterprise special districts for FY 2006-2007.
3. Direct staff to schedule a public hearing for consideration and adoption of the final FY 2006-2007 LAFCO budget at the May 10, 2006 Commission meeting.

Respectfully submitted,

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JOYCE CROSTHWAITE  
Executive Officer

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CAROLYN EMERY  
Project Manager

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BOB ALDRICH  
Assistant Executive Officer

Attachments:

1. Proposed LAFCO Budget for FY 06-07
2. Definitions of Budget Categories
3. Special District Cost Allocations for FY 06-07
4. City Cost Allocations for FY 06-07